11

Trade and Growth

Abstract Cilliers starts by exploring the modern history of international trade and the importance of trade to economic growth and global cooperation. The chapter then provides an overview of Africa's trading partners, the need for greater regional integration in the continent and the challenges to achieving intra-regional cooperation. It examines the need to improve the quality of governance, bridge the infrastructure deficit and eventually focus on a manufacturing-led growth path. Reducing both tariff and non-tariff barriers could facilitate the successful implementation of African Continental Free Trade Area (AfCFTA), induce economic growth, increase per capita incomes and reduce poverty. A penultimate section models the potential impact of the AfCFTA on growth, poverty reduction and increased average incomes.

Keywords Trade · Globalisation · Multilateralism · Tariffs · Regional integration · Preferential access · Economic partnership agreements · Technology · Infrastructure

Learning Objectives

– Understand why countries trade- the benefits and challenges of cooperation in trade.
– Internalise the basic conditions Africa needs to meet to promote trade and greater intra-regional trade in the continent
– Understand why Africa needs to go up the production curve towards high-end manufacturing to promote economic growth.

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Trade and globalisation are often associated with neoliberal economics that is generally lambasted in much of Africa in the belief that it is solely aimed at rewarding US-style capitalism and those that sit at the pinnacle of the free-market system. But for all its shortcomings, trade and globalisation have made an immense contribution to humanity's current levels of unprecedented prosperity and human development.

The reasons for the hostility towards neoliberalism if not hard to fathom for the first wave of globalisation and expanding trade in the modern world was substantially fuelled by colonialism and the associated flows of goods from India, Africa and elsewhere to Europe. It peaked in the years immediately before the First World War at level of 11–12% total value of exports as a share of global gross domestic product (GDP) before crashing down during the Great Depression of the 1930s and the Second World War to bottom out at four percent of GDP. The second, much longer wave, started in 1945 during which the world experienced unprecedented improvements in general wealth, health and wellbeing.[1]

The value of exports as a share of GDP rapidly advanced during the intervening years, from below five percent in 1945 to 9% in 1960, 15% in 1990 and to its recent peak, in 2008, at around 26% before subsequent declines to about 21% of global GDP in the wake of the 2007–2008 financial contraction. Another contraction, this time due to the impact of COVID-19, is currently in full swing but its impact, depth and duration is currently unsure. Pre-COVID-19 trade volumes were 40 times larger than at the end of the first wave of globalisation in 1913.[2]

The post-1945 wave of globalisation and the associated growth in trade was enabled by advances in technology such as commercial civil aviation, modern communication and improvements in shipping.[3] There was also no war between the core states that lay at the heart of the bipolar system, such as between the USA and the former Union of Soviet Socialist Republics (USSR), although a number of proxy conflicts were fought in Asia and Africa which is a second reason why many Africans react to negatively at any mention of globalisation. Generally few outside of Africa fully comprehend the intensity of the proxy wars fought in the Horn of Africa and in Angola during this period. In addition, China's rapid integration into the global economy, including its eventual admission into the WTO in 2001, the impact of

[1] Ortiz-Ospina, E., Beltekian, E., & Roser, M. Trade and Globalization, 2018, Our World in Data, October 2018. [Online] Available at: https://ourworldindata.org/trade-and-globalization#trade-from-a-historical-perspective.

[2] Ibid. The rates within IFs, calculated from the IMF World Economic Outlook 2017, World Bank and OECD national accounts data, is consistently about five percentage points lower.

[3] Ibid.

the single European market and the opening up of the Russian and Indian economies also boosted trade.

As trade expanded, it had a significant positive impact on growth, although the exact impact on wages, household incomes and poverty necessarily differ from country to country and sector by sector. Generally the growth in trade is driven by trade liberalisation with the result that much of the increase in trade is believed to be the result of the reduction in average tariffs from around 22% of value during the 1940s to below five percent by the time that the WTO was established.[4]

The extent to which globalisation has led to a race to the bottom in terms of the location of factories in locations where labour costs are low, resulting in sweatshop practices in developing countries, is often cited in mainstream media and is a third reason for the general negative views about globalisation in Africa.

But the most important reason for a general hostility towards neoliberalism is undoubtedly the impact of the structural adjustment programmes that the World Bank and International Monetary Fund foisted on Africa during the 1980s and 1990s, as discussed in Chapter 2. Government was bad and the private sector was the answer to all of Africa's manifold challenges, Africans were told in a charge led by the World Bank and the International Monetary Fund.

None of these perceptions substantively question the contribution that more trade has made to improvements in livelihoods, although all point to the extent to which Africa has not benefited. As I examine below, this could change in the future.

From GATT to the Decline of Multilateralism

A significant development to advance trade was the General Agreement on Tariffs and Trade (GATT) that was signed by 23 countries in Geneva in 1947. The international community undertook a series of subsequent negotiations to expand and broaden the impact of trade, but much of that was to the benefit of established trading nations. Eventually, at the conclusion of the so-called Uruguay Round of negotiations in 1994, WTO members agreed that the next round of negotiations, the Doha or development round would look

[4] Ortiz-Ospina, E., 2018. *Does Trade Cause Growth?* [Online] Available at: https://ourworldindata.org/trade-and-econ-growth. Also Ortiz-Ospina, E., 2017. *Is Globalization an Engine of Economic Development?* [Online] Available at: https://ourworldindata.org/is-globalization-an-engine-of-economic-development.

towards the needs of poorer, developing countries. That would occur under the auspices of the World Trade Organization (WTO) established to update and institutionalise GATT.[5]

That never materialised, for although the Doha Round commenced in 2001 it has not been concluded and the focus has shifted away from global arrangements. In fact, in the decades since the Uruguay Round of negotiations that established the WTO, its only success was the conclusion of the Trade Facilitation Agreement that entered into force in 2017.[6] Under Donald Trump's presidency the future of the WTO has come under threat as economic nationalism and populist protectionism in the USA ran its course. The WTO's Appellate Body—the final arbiter on trade disputes, was, for example, no longer operational by mid-2020 when the USA has blocked the appointment of new judges to restore its quorum. Without a dispute resolution mechanism the entire global trade regime is at risk but it is probably too early to speculate on the demise of the WTO given the incoming Biden presidency and ongoing behind the scenes discussions and negotiations.

With the rules-based trading system in a mess, the trend in recent years has been towards regional agreements and the emergence of so-called plurilateral negotiating structures that allow some countries to agree on specific issues beyond WTO rules but that are insufficiently inclusive to be called multilateral agreements. Examples include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that came into effect in December 2018 and the conclusion of negotiations among Asia-Pacific countries on the Regional Comprehensive Partnership (RCEP) that will, once ratified, be the largest trade agreement globally by value.[7] I also remarked on this trend towards regionalisation in discussing the potential of Africa to industrialise (Chapter 8) since the impact of digitisation and the fourth industrial revolution is to slowly shift considerations about the location of manufacturing towards the consumer, including in Africa.

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[5] In 1995 when 124 countries agreed to the Marrakesh Agreement. Ibid.

[6] TFA contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area. See WTO, Trade facilitation at https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm.

[7] The CPTPP was signed between 11 countries, including Canada, Australia, Vietnam and Japan but excludes the USA and China. The RCEP is an agreement between the ten member states of the Association of Southeast Asian Nations (ASEAN) and the six Asia-Pacific states and would therefore include China, India and Japan.

The Impact of Preferential Access: Everything But Arms and AGOA

Even before the final Doha impasse, a number of efforts have been made to assist the integration of developing countries into the global economy and to unlock the potential inherent in export-driven growth—largely by granting Least Developed Countries 'special and differential treatment'.[8] Typically these agreements provide greater access to the large domestic markets most especially those of the European Union and the USA.

The legal basis for these trade preferences is the Generalized System of Preferences (GSP) that provided for exemption on the basis of a list of criteria such as per capita gross national income and economic vulnerability to external shocks.[9] The two most important ones that relate to Africa are the EU's Everything But Arms initiative and the US's African Growth and Opportunity Act (AGOA).[10]

In the case of the EU cooperation between the Union and the 79 member group of African, Caribbean and Pacific countries dates from the 1975 Lomé Convention. After three revisions the Lomé Convention was replaced in June 2000 by the more expansive Cotonou Agreement, named after Benin's capital city where it was signed. The Cotonou Agreement gives a stronger political foundation to EU-ACP cooperation and includes matters such as good governance, peace and security, arms trade and migration. Most important is that Cotonou replaces the previous system of non-reciprocal trade preferences to ACP countries with reciprocal Economic Partnership Agreements (EPAs). Aid is steadily being replaced with an emphasis on trade.

Today the EU has a comprehensive and progressive trade dispensation consisting of several layers. The first and most important is the Everything But Arms initiative (still from the Lomé Convention) that was introduced in 2001. It grants Least Developed Countries duty and quota-free access to the EU single market for almost all their exports except arms and armaments. It is also the most extensive. Currently 22 of Africa's low and lower-middle-income countries benefit from Everything But Arms. Countries in Northern

[8] The Decision on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries—called the Enabling Clause in trade jargon—was adopted under the Tokyo round of the GATT in 1979.

[9] The principle of a GSP was agreed on at the UN World Trade Conference (UNCTAD ll) in 1968 as a non-reciprocal facility that countries such as the European Union and the US bestow on least developed countries. The former European Community first introduced a non-reciprocal scheme for developing countries in 1971 followed by the US in 1976.

[10] Trade under AGOA quadrupled in value from 2002 to 2008, a year when it reached $100bn, but fell back in 2017 to $39bn, according to figures compiled by the US Agency for International Development (USAID).

Africa and South Africa are generally excluded since none have Least Development Country status. The scheme has no expiry date and it includes access for processed agricultural products, as well as textiles.[11]

The next level in the EU layer is the so-called 'Standard GSP' that applies to low and lower-middle-income countries. The Standard GSP reduces EU import duties for about two-thirds of all product tariff lines and currently applies to Kenya and Nigeria. Then Cape Verde is currently the only African country that benefits from GSP Plus which is a special incentive arrangement for sustainable development and good governance that further slashes tariffs when countries implement 27 international conventions related to human rights, labour protection, protection of the environment and good governance.[12]

However, as the EU concluded trade agreements with other developing countries and lowered its tariffs from them, the preferences granted to Africa inevitably eroded, a problem also evident with AGOA.[13]

Different to Everything But Arms, the EPA's are not unilateral concessions by the EU. They also go beyond conventional free-trade agreements to include sustainable development and poverty reduction goals. They are, however, controversial for two reasons. First is that they include explicit language on human rights, democratic principles, the rule of law, and good governance that are, of course, resisted by countries that do not meet these requirements. Second, in addition to the advantages that an EPA member would have in trade with the EU, each EPA provides that countries in the same region (such as West Africa) provide at least the same advantages to each other as they do to the EU as an incentive to grow regional trade. Future trade agreements between ACP countries or with other developing countries will automatically also apply to the EU, granting the latter 'most favoured' nation status.[14]

Progress with EPA's has, however, been slow amidst concerns that the EPAs may actually be detrimental to expanding intra-African trade. The requirement to provide the EU with most favoured nation status as part of EPAs is of particular concern. Moreover, some national governments now baulk at the realisation that the agreements would initially reduce tariff

[11] European Commission, *List of GSP Beneficiary Countries (as of 01 January 2019)* [Online] Available at: https://trade.ec.europa.eu/doclib/docs/2019/may/tradoc_157889.pdf.

[12] European Commission, *Generalized Scheme of Preferences (GSP)* [Online]. Available at: http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/.

[13] Schmieg, E., *2019. EU and Africa: Investment, Trade, Development*, Berlin: Stiftung Wissenschaft und Politik.

[14] European Commission, 2018. Economic Partnership Agreements (EPAs) September 2018 [Online] Available at: https://trade.ec.europa.eu/doclib/docs/2017/february/tradoc_155300.pdf.

revenues from trade with neighbouring countries—a challenge that will also face these countries under the proposed African Continental Free Trade Area (AfCFTA).[15]

As opposed to Everything But Arms, AGOA is based on progress in meeting criteria such as the establishment of a market-based economy, adherence to the rule of law, elimination of barriers to US trade, and investment and protection of workers' rights.

The US Congress approved the African Growth and Opportunity Act in May 2000 and after its initial 15 years it was extended for ten years to 2025. AGOA provides tariff-free access on 6500 products to 39 countries ranging from oil and agricultural goods to textiles and handicrafts. Congress determines annually which countries qualify for AGOA benefits.

Before the shale revolution discussed in Chapter 10 (as part of Africa's potential to leapfrog), the US/Africa trade surplus was historically in Africa's favour because of oil or petroleum-based exports from countries such as Angola and Nigeria. In the wake of the shale revolution the USA has largely lost economic interest in Africa except as an arena to assist in confronting Islamic terror and to compete with China. As discussed in Chapter 14, the USA remains the largest bilateral provider of aid.

Among others, AGOA allowed duty-free entry of apparel into the US market. As a result, apparel exports from a handful of African countries to the USA increased rapidly but the limits of unilateral arrangements such as AGOA soon became evident when the advantage started eroding from 2005 when quota restrictions on apparel from China and other Asian countries were phased out.[16]

AGOA and Everything But Arms are not trade agreements negotiated between two partners, but a unilateral concession made by one party (the USA or the EU) for the benefit of another (developing countries that meet certain minimum criteria). It implies temporary relief that can be revoked at any point, i.e. goods may be taken off the eligibility list or the entire

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[15] Mevel, S., Valensisi, G., & Karingi, S., 2015. *The Economic Partnership Agreements and Africa's Integration and Transformation Agenda: The Cases of West Africa and Eastern and Southern Africa regions.* [Online] Available at: https://www.gtap.agecon.purdue.edu/resources/download/7649.pdf.

[16] In terms of the WTO's Agreement on Textiles and Clothing. Fernandes, A. M., Maemir, H., Mattoo, A., & Rojas, A. F., 2018. *Are Trade Preferences a Panacea? AGOA and African Exports.* Kigali, pp. 4, 21–22. Before the agreement took effect a large portion of textiles and clothing exports from developing countries to developed countries was subject to quotas under a special regime outside of normal GATT rules. Under the agreement, WTO Members committed to remove the quotas by 1 January 2005 by integrating the sector fully into GATT rules. See World Trade Organization, n.d. *Textiles Monitoring Body (TMB) The Agreement on Textiles and Clothing.* [Online] Available at: https://www.wto.org/english/tratop_e/texti_e/texintro_e.htm.

arrangement can be cancelled, meaning that the beneficiary countries have no recourse to remedies or dispute resolution.

Although it appears as if preferential access does improve access to say the American or European market, it is much less clear whether these improvements result in lasting improvements in export performance once countries exit from preferential access. Like aid (discussed in Chapter 14), these types of concessions have a limited effect if not accompanied by vigorous domestic reform.

Lasting trade progress requires that preferential access should be complemented by domestic reforms like improved access to imported inputs through reduction of tariffs, a lighter regulatory burden and enhanced access to infrastructure (such as through the creation of effective special economic zones) and flexible exchange rate regimes that lead to competitive exchange rates.[17]

While Europe and the USA have therefore made various efforts to improve trade with Africa, today China is Africa's largest single bilateral trading partner and speed at which this has occurred is truly amazing.

Africa's Shifting Trade Relations with the Rest of the World

In 1970, Europe represented nearly 70% of Africa's total trade with its share declining to about 45% by 2014 as Africa's trade with emerging markets improved. Africa's trade with North America has also declined significantly, falling from a peak of nearly 30% of total trade in the late 1970s to roughly seven percent of total trade in 2014. By 2018 the EU-28 is responsible for 36% of Africa's exports and 33% of imports. Whereas Africa's trade with the USA quadrupled in value from 2002 to US$100 billion in 2008 it fell back to just US$39 billion in 2017.[18] In 2018 only 7% of Africa's exports and 5% of Africa's imports are with the USA. By contrast African trade with countries and regions considered to be in the Global South has steadily increased over the last four decades, particularly with China.[19]

Today China is Africa's largest single country-trading partner in both exports and imports, at 9 and 13% respectively. So considerably less than

[17] Fernandes, A. M., Maemir, H., Mattoo, A., & Rojas, A. F., 2018. *Are Trade Preferences a Panacea? AGOA and African Exports.* Kigali, pp. 41–42.

[18] US-African trade lagging despite free access 8 August 2019. https://agoa.info/news/article/15638-us-african-trade-lagging-despite-free-access.html.

[19] Analysis based on COMTRADE data.

Africa's trade with the EU-28.[20] As China and India rise, they are dragging Africa along with them, for the continent has been able to maintain its relative trade position with both, but with an increased commodities content as opposed to higher value goods and services.[21] Soon Africa will be trading the majority of its goods with non-western partners and its political orientation will inevitably follow those shifts in economic power and influence.

China–Africa bilateral trade steadily increased from US$10 billion in 2000 to US$222 billion in 2014 before contracting in 2015 as the Chinese economy rebalanced and became less dependent upon commodity imports for growth. Crude oil, minerals ores, tobacco and wood contribute over 90% of China's imports from Africa, which is in sharp contrast to its more diversified export profile to Africa largely consisting of value-added goods with an ever widening trade imbalance in China's favour.[22]

Then, from 2017 to 2018, trade between Africa and China expanded by 20% from US$170 billion to US$205 billion, Standard Bank forecasts that bilateral trade should surpass US$300 billion in the next three to five years, but the associated widening trade imbalance that started in 2015 could be unsustainable and the impact of COVID-19 is sure to see a sharp reversal of trade flows at least in 2020 and 2021.[23] Before COVID-19 more than forty African countries ran a trade deficit with China. That of Kenya was particularly large. The largest volume of China-Africa trade is with South Africa—also the largest African investor in China—while trade with the DRC, Mozambique and Zambia was growing most rapidly before the virus struck[24] (Fig. 11.1).

Perhaps even more important than total trade is its composition. The share of manufacturing in total African exports was close to 30% two decades ago

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[20] Prior to Brexit the EU accounted for 38% of Africa's exports and 37% of its imports in 2017. China follows with 14% of exports and 19% of imports. Eurostat, 2018. *Africa-EU—International Trade in Goods Statistics*. [Online] Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php/Africa-EU_-_international_trade_in_goods_statistics#Africa.E2.80.99s_main_trade_in_goods_partner_is_the_EU.

[21] Freemantle, S., & Stevens, J., Placing the BRIC and Africa commercial partnership in a global perspective, Standard Bank, 19 May 2010, pp. 2, 6–7.

[22] Mureverwi, B., July 2016. TRALAC, China-Africa Trading Relationship. https://www.tralac.org/resources/our-resources/9174-china-africa-trading-relationship.html.

[23] Stevens, J., 16 January 2019. China-Africa Trade Expanded by 20% in 2018. *Inside China*, Standard Bank [Online] Available at: https://ws15.standardbank.co.za/ResearchPortal/Report?YYY2162_FISRqWkWXsic7FKgCjGcLn4JFQVBznDhsEVWcAqZhonSBCWKRZHtiYtASPMgyIUm/xoiITm+eZxvGcE6UxHkpQ==&a=-1.

[24] Wenjun, C., 2018. *Twenty Years on, China-SA Relations Embrace a New Chapter*. [Online] Available at: https://www.businesslive.co.za/bd/world/asia/2018-09-25-twenty-years-on-china-sa-relations-embrace-a-new-chapter/.

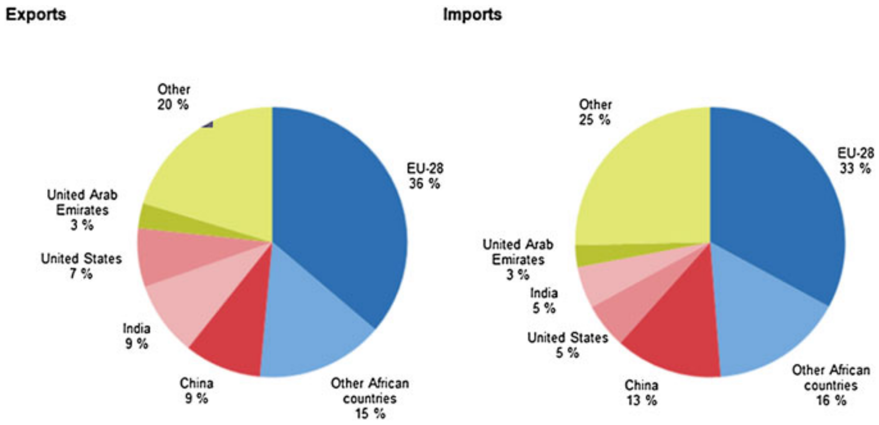

Fig. 11.1 African export and import share with main partners, 2018 (*Source* UNCTAD)

but it has declined for several years before again increasing when the COVID-19 pandemic hit. Generally the value of commodity exports has increased in line with the commodities supercycle that was discussed in Chapter 2.[25] Africa's trade with the EU is, however, more balanced than with other regions but even here the lack of value-add is glaring. The continent 'only' imported 70% manufactured goods from the EU in 2018 while its exports comprised 65% primary goods consisting of food and drink, raw materials and energy.[26]

After recovering from the global financial crisis in 2008, the share of manufacturing as a portion of Africa's trade again increased from 2012 to around 27% by 2016. However, apart from Senegal and Togo, the share that manufacturing represents in total exports has again declined recently, including from countries such as Botswana, South Africa, Madagascar and Namibia that have a relatively high share of manufactured exports.[27]

It is obvious that in spite of African countries benefiting from the various preferential trading agreements such as AGOA and Anything But Arms, preferential market access has not led to a stronger export performance or to more

[25] Fernandes, A. M., Maemir, H., Mattoo, A., & Rojas, A. F., 2018. Are Trade Preferences a Panacea? AGOA and African Exports. Kigali, p. 20.

[26] Most European trade is with North Africa, with Spain, France, Italy and Germany being the top four countries trading with Africa. Eurostat, 2018. *Africa-EU—International Trade in Goods Statistics*. [Online] Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php/Africa-EU_-_international_trade_in_goods_statistics.

[27] Fernandes, A. M., Maemir, H., Mattoo, A., & Rojas, A. F., 2018. Are Trade Preferences a Panacea? AGOA and African Exports. Kigali, pp. 17–18.

diversified economies. Rather, other factors such as the demand for commodities from China dominate. Andrew Mold from UN Economic Commission for Africa argues that there are three reasons for this state of affairs:

> The design of those preferential agreements is partly to blame, with strict rules of origin and unnecessarily tough phytosanitary and product standards. In addition, African firms have displayed a lacklustre response to the opportunities. However, the Achilles heel of these agreements has been their impermanence – they are concessional and can therefore be suspended or simply not renewed (requiring as they do a special dispensation through the World Trade Organisation).[28]

The power of geography is particularly strong when it comes to trade. Typically countries trade more with their neighbours rather than with countries that are further away. As a result the natural market of North African countries inevitably lies within the Mediterranean basin given the potential that the sea offers to transport high volume goods and that the Sahara desert forms a substantial barrier to the south. Algeria and Egypt, and to a lesser extent Libya, are already significant exporters of liquefied natural gas to primarily European consumers. In addition, initiatives such as the Mediterranean Solar Plan could eventually help the EU to meet its renewable energy pledge as the pressures of climate change mount globally. The plan, launched in July 2008, envisages generating 50–100 GW of solar power generation in North Africa for potential export to Europe. However, it has come to a standstill since the Arab spring uprisings.[29]

The EU envisions a Euro-Mediterranean free trade area with Algeria, Egypt, Israel, Jordan, Libya (negotiations are currently suspended), Morocco, Syria, Tunisia, the Palestinian Authority and Turkey. In 2016 the region represented 9.4% of total EU external trade but progress is hampered by politics, instability and the very low level of intra-regional trade in North Africa.[30] But at some point stability will return to North Africa and its location next to the EU then offers significant potential but likely only if the region can stop its incessant internal bickering.

[28] Mold, A., 2018. *The Case for an Integrated African Market—The Costs of 'non-AfCFTA'.* [Online] Available at: https://www.theeastafrican.co.ke/oped/comment/Integrated-African-market--the-costs-of--non-AfCFTA/434750-4709126-3el6hjz/index.html.

[29] Stoffaës, C., 2016. *The Mediterranean Solar.* [Online] Available at: https://www.plansolairemediterraneen.org/.

[30] The Euro-Mediterranean Partnership (previously the Barcelona Process) was relaunched in 2008 as the Union for the Mediterranean.

Intra-African Trade and Efforts at Advancing Regional Integration

Because agriculture is such a large component of Africa's economy—it has hovered at around 18% of Africa's GDP over several decades, Africans are keen on access to agricultural markets in the developed world, particularly Europe. For decades no meeting on trade in Africa would start without reference to the large subsidies cattle farmers in the EU receive and the extent to which agriculture in the EU benefit from domestic subsidies, as well as the regulatory hurdles in Europe that effectively prohibit most agricultural imports.[31] Then there's the massive subsidies for large commercial farmers in the USA, most of which goes to large producers of corn (maize), soybeans, wheat, cotton and rice.[32]

Actually access to agricultural markets outside of Africa has served as an effective lightning rod to divert attention from other, more important matters relating to trade, namely schemes that would incentivise value-added exports, low-end manufacturing and the beneficiation of its vast mineral exports. And above all, Africa has, until recently, done little to increase intra-regional trade, even as regards foodstuffs.

Ironically, given the lack of real progress, the advantages of trade integration in Africa were recognised even before the establishment of the Organization of African Unity (OAU) in 1963, the predecessor to the African Union. The Southern African Customs Union (SACU) is the oldest customs union in the world, having recently celebrated its centenary. SACU was, of course, not originally established as a vehicle for regional integration but to facilitate commercial integration and tax management by Great Britain, who had various colonial territories in Southern Africa under its control. Then came the Southern Rhodesia (today Zimbabwe) Customs Union, established in 1949, and in 1967, the East African Community (EAC).

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[31] The EU's Common Agricultural Policy (CAP) provides direct payments to European farmers in the form of a 'basic income support'. It is therefore decoupled from production and payments amount to 72% of the EU farming budget. On average, EU farmers receive €267 per eligible hectare and may be eligible for additional sources of funding. This effectively amounts to a blanket subsidy for farming, even in the absence of targeted subsidies for specific product categories. Furthermore, according to the EU website: 'While the rules governing direct payments are set at EU level, their implementation is managed directly by each member state under the principle known as shared management. This means that national authorities are responsible for the administration and control of direct payments to farmers in their country.' Each country also has a certain level of flexibility in the way they grant these payments to take account of national farming conditions, which vary greatly throughout the EU. European Commission, n.d. *The Basic Payment.* [Online] Available at: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/income-support/basic-payment.

[32] Edwards, C., 2018. *Agricultural Subsidies.* [Online] Available at: https://www.downsizinggovernment.org/agriculture/subsidies.

The latter two arrangements eventually failed and were disbanded, although a new effort is being made with the EAC. The impact of these first regional economic communities was limited, although today SACU accounts for more than 50% of the continent's entire intra-regional trade and SADC[33] for approximately 70%.

Later the 1980 Lagos Plan of Action, which was essentially Africa's response to the World Bank's structural adjustment programs, and the Treaty Establishing the African Economic Community of 1991, generally known as the Abuja Treaty, elaborated on the specific economic, political and institutional mechanisms needed to achieve Africa's economic integration.

Neither made much progress but the tradition of grand schemes continued unabated. The African Union Development Agency-New Partnership for Africa's Development (AUDA-NEPAD) provides an overall integration and development framework for the continent, which again assumes regional integration as one of its core objectives. The most recent grand visions are the Agenda 2063. And then there is the African Continental Free Trade Areas or AfCFTA.

In varying degrees these continental schemes view the various subregional economic groupings such as SADC, the EAC and the Economic Community for West African States (ECOWAS) as building blocks towards greater cooperation.

Generally, levels of trade in all of Africa's regions are significantly below that of other regional blocks like the Asia-Pacific Economic Cooperation (APEC) and the European Union.[34] For example, the comparative data of intra-regional trade for 2017 is as follows:

- Intra-Africa trade at 17%
- Europe 68%

[33] Although the launch of a SADC free trade area in 2008 was an important stepping stone towards the SADC common market envisaged by 2015 and a common currency by 2018, both goals have been missed by a large margin. In spite of a well-defined socio-economic roadmap with a harmonised and legally binding protocol on trade liberalisation, intra-regional trade in SADC remains low at about 10%. Overall progress towards more economic integration is slow, although there is some movement via other processes such as a regional power pool, transport corridors and integrated payment systems.

[34] A recent IMF study indicates using micro data that combines various macro datasets and variables, purports to show that integration in sub-Saharan Africa is more extensive than generally believed. Most of the increase in integration is through trade in goods, thus following the standard path to development, the report argues. But increasingly sub-Saharan African countries are also linked together through financial flows—whether through remittances sent home by foreign workers or more formally through the cross-border expansions of banks. There is also evidence of other real-economy linkages, through fiscal policy, foreign direct investment and migration flows. See Arizala, F., Bellon, M., MacDonald, M., Mlachila, M., & Yenice, M, Y., 2018. *Trade and Remittances Within Africa.* [Online] Available at: https://blogs.imf.org/2018/08/01/trade-and-remittances-within-africa/.

- Asia 59%
- Americas at 55%[35]

Trade volumes among African states are low in part because governments depend heavily on the income from tariffs. High tariffs serve as an effective tax on trade and invariably reduce trade volumes. Carlos Lopes, a former head of the UN Economic Commission for Africa estimates that 'the majority of businesses on the continent pay an average of 6.9% tax on cross-border transactions. The cost of the transactions, added to the cost of production, has a huge impact, not only on the competitiveness of the businesses but also on the quality of life of consumers'.[36]

Hefty tariffs invariably inhibit trade flows across borders and often also contribute to smuggling and the growth of the shadow economy if borders are not very well policed. Vast amounts of money can be made smuggling items such as petroleum and cigarettes across borders where prices differ substantially between countries. This is particularly characteristic of economies in West Africa, the Sahel, North and in Central Africa.

In fact, when we recently looked at the future of Tunisia[37] we found that its informal and parallel economic sector is substantially larger than the average for other low-middle-income countries when measured as a portion of the total economy. Many Tunisians are forced to engage in the informal sector in spite of their high levels of education; a situation that contributed to the overwhelming frustration that underpinned the Freedom and Dignity revolution that commenced at the end of 2010 and ignited the brief Arab spring that followed. While democracy has flourished post-2010, Tunisia's new political dispensation has not been able to sufficiently displace the opaque insider/outsider economic system that constrains opportunity and forces many into the informal and parallel economy. As a result Tunisia's large informal and parallel economy is more than survivalist and involves considerable illicit activity—a view borne out by a World Bank estimate that about 25% of the fuel consumed in Tunisia has been smuggled from Algeria, where fuel is cheaper.[38]

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35 Based on UNCTADstat (https://unctadstat.unctad.org/EN/).

36 Institute for Security Studies, 2018. *The African Free Trade Area Could be a Reality by March Next Year.* [Online] Available at: https://issafrica.org/pscreport/psc-insights/the-african-free-trade-area-could-be-a-reality-by-march-next-year.

37 Kwasi, S., Cilliers, J., & Welborn, L. (2020). The Rebirth: Tunisia's Potential Development Pathways to 2040, Institute for Security Studies. Available at: https://issafrica.org/research/north-africa-report/the-rebirth-tunisias-potential-development-pathways-to-2040.

38 L. Ayadi et al., 2013. Estimating informal Trade Across Tunisia's Land Borders, World Bank, Policy Research Working Paper WPS 6731. https://documents.worldbank.org/curated/en/856231468173645854/Estimating-informal-trade-across-Tunisias-land-borders. Also Quillen, S., 2017 Informal Economy

Much of the informal sector in Tunisia could therefore more appropriately be described as being part of the shadow economy, consisting of black market transactions such as smuggling and undeclared work—a textbook example of what happens when a ruling elite constrains the economy to its own ends.

In addition to the various structural reasons for Africa's poor growth such as a declining demographic dividend until the late 1980s (see Chapter 5), and its role as a proxy battleground during the Cold War, bad governance, poor policy and lack of implementation of agreements all played an important role. Structurally the continent did not develop regional value chains, does not substantively trade among its members and hence did not form part of the global value chains in goods and services that developed between parts of Asia, North America and Europe since the 1990s.

The results are stark with Africa literally not part of the global discussions on trade. Outside of Africa analysis is no longer fixated only on the growth and structural change in individual economies, but rather use the lens of global value chains—the complex network that ties the flows of goods, services, capital and technology together across national borders—to evaluate the strength of economies.

Global value chains continue to evolve and may do so more rapidly following the trade shocks associated with COVID-19. First, goods-producing value chains are becoming less trade-intensive and trade in cross-border services are growing more rapidly than trade in goods. Second, goods-producing value chains are becoming more regionally concentrated, especially within Asia and Europe. Companies are increasingly locating their production facilities in closer proximity to demand. This could, in time, offer advantages to Africa with its rapidly growing population and growing consumer base.[39]

Presents Tunisia with Thorny Issue. *The Arab Weekly*, 30 June 2017. https://thearabweekly.com/informal-economy-presents-tunisia-thorny-issue.

[39] Lund, S., Manyika, J., Woetzel, J., Bughin, J., Krishnan, M., Seong, J., & Mac Muir. 2019. *Globalization in Transition: The Future of Trade and Value Chains*. New York: McKinsey Global Institute, p. 1.

The Need for Connecting Infrastructure—And the Challenge of Non-Tariff Barriers

Organisations like the World Bank, the African Development Bank and the UN Economic Commission for Africa regularly bring out reports that quantify the extent to which Africa's lack of connecting infrastructure such as road and rail between neighbouring countries increases transport costs and creates delays. Poor infrastructure reduces the competitiveness of business and undermines much-needed investment flows.

In some East African countries, for example, transport costs are estimated at about five times more when compared with countries in Europe and North America.[40] The large number of landlocked states means that many, such as Ethiopia, Uganda, Rwanda, Burundi, Lesotho, Swaziland, Zimbabwe, Malawi, Uganda, Burundi, Rwanda and South Sudan, are dependent on their neighbours for access to the sea.

According to the African Development Bank, Africa has an annual infrastructure funding gap of US\$130 billion to US\$170 billion, with an annual financing gap of US\$68 to US\$108 billion.[41] The numbers speak for themselves. Africa has an average of 204 kilometres of roads per 1000 km^2 of which only one quarter is paved. That density lags far behind the world average of 944 kilometres per 1000 km^2, of which more than half are paved. Most of the continent's paved roads can also be found in a single country, South Africa.[42]

Anyone who has had to travel around West and Central Africa can testify to the dire need for better connecting infrastructure. Whether by roads, through ports, buses, planes or trains—but still, significantly better than even a few years ago.

For example, the capital city of Cameroon, Yaoundé, and Nigeria's capital city, Abuja, are about 100 km closer to each other than Madrid is from Paris. Yet the estimated drive time from Yaoundé to Abuja is about five and a half hours longer than from Madrid to Paris.

Before COVID-19 brought air traffic to a standstill the only direct flights from Yaoundé to Abuja were on Tuesdays and Thursdays, which means the

[40] African Development Bank Group, 2018. *Eastern Africa Regional Integration Strategy Paper 2018–2022.* Abidjan: African Development Bank Group.

[41] African Economic Outlook 2018, 2018. Available at: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2018AEO/African_Economic_Outlook_2018_-_EN_Chapter3.pdf, p. 63.

[42] Ashurst, 2016. *Road Infrastructure in Africa.* [Online] Available at: https://www.ashurst.com/en/news-and-insights/insights/road-infrastructure-in-africa/.

weary traveller who wants to avoid multiple stops on any other day needs to fork out US$5000 for a one-stop Air France flight via Charles De Gaulle International Airport in France, or he must fly across the continent to Addis Ababa to get a connecting flight there. It is for these reasons that the various continental development agencies in Africa are promoting a Single African Air Transport Market (SAATM), though progress is painfully slow.

However, there has been recent progress in building and financing infrastructure projects. This is largely spurred by the excess capacity to build infrastructure that became available from China as part of its Belt and Road Initiative that intends to connect China to the rest of Asia, Africa and even Europe.

Modern technology will also offer a way to replace costlier forms of more basic infrastructure. A number of African countries already use drones to transport blood and other vital medicines to rural hospitals bypassing poor, often unpaved, roads. But doctors, nurses and patients are all still dependent on roads and bridges to get to those hospitals and even the advent of mass air transport mentioned in the previous chapter may not sufficiently compensate for the requirement to transport large volumes of heavy cargo over long distances.

Technology is having a further impact in the form of advances in the use of traditional bituminous road construction technologies that translate into reduced cost and construction time. Disruptive change may also be imminent. At the high end of the technological spectrum Dutch engineers have come up with the concept of self-repairing asphalt roads that also serve to charge electric cars as you drive over it.[43] Then there is the promise of self-healing cement created by adding polymers to traditional cement mixes. The resulting cement has re-adhering properties that extend its lifetime. But the most important advance for Africa is likely to be from experiments mixing a chemical polymer with soil that stabilises ground surfaces sufficiently for cheap gravel roads to sufficiently withstand significant traffic volumes and the impact of seasonal rains.[44]

To this end the African Union launched the Programme for Infrastructure Development in Africa and its Priority Action Plan (PIDA-PAP) that is being championed vigorously by AUDA-NEPAD, the AU Commissioner for

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[43] See Barlow, I. M., 2017. *Self Repairing Roads.* [Online] Available at: https://www.planswift.com/blog/self-repairing-roads/.

[44] See Ashby, S., 2018. *A Sidewalk That Repairs Itself? PNNL Cracks the Code for Self-Healing Cement.* [Online] Available at: https://www.pnnl.gov/news-media/sidewalk-repairs-itself-pnnl-cracks-code-self-healing-cement. Also Vijay, K., Murmu, M., & Deo, S. V., 2017. Bacteria Based Self Healing Concrete—A Review. *Construction and Building Materials,* 152, pp. 1008–1014.

Infrastructure, Energy and Tourism, the African Development Bank and the UN Economic Commission for Africa.

PIDA-PAP is a kind of infrastructure master plan for Africa. Although it regurgitates many previous ambitions, some of which date from colonial times, it has seen some implementation.[45] The PIDA-PAP portfolio from 2012 to 2020 numbered 51 cross-border programmes in transport (235 projects), energy (54 projects), ICT (113 projects) and trans-boundary water resources management (9 projects).

The concept note for a recent (November 2018) PIDA-PAP workshop at Victoria Falls[46] revealed that the capital cost of delivering the plan was estimated at US$68 billion or US$7.5 billion annually—relatively modest ambition compared to the infrastructure funding gap calculated by the African Development Bank that was quoted earlier. Of the more than 400 projects, the conference heard, 26% are moving from concept to pre-feasibility or feasibility phases; 16% are currently being structured for tendering; and 32% are either under construction or are already operational reflecting steady progress. Implementation is slow, however, and, at the end of 2019, PIDA-PAP 2 was being finalised for implementation from 2021 to 2030 now based on an integrated corridor approach including a scoping study for a Continental High Speed Railway Network.[47]

So-called non-tariff barriers are arguably an even larger constraint to trade in Africa and African trade with the rest of the world. Non-tariff barriers refer to onerous regulatory procedures, expensive visa requirements, corruption and inefficiency—including import prohibitions, quotas, export subsidies, export restrictions, technical barriers to trade (such as regulations, standards and assessment procedures), as well as with food safety and animal and plant health standards.[48] Whereas free trade agreements are subject to long and drawn-out processes associated with the negotiations, the removal of non-tariff barriers results from unilateral and bilateral cooperation. Exactly how powerful removing non-tariff barriers are was illustrated with a recent study

[45] African Union, 26–28 November 2018. *PIDA Implementation Through Good Governance–Realizing Smart Infrastructure for Africa's Integration.* [Online] Available at: https://www.tralac.org/documents/news/2406-pida-week-2018-concept-note/file.html.

[46] Concept Note for the Second Ordinary Session of the African Union Specialized Committee on Transport, Transcontinental and Interregional Infrastructure, Energy and Tourism, Cairo, Egypt, 14–18th April 2019. Available at: https://au.int/sites/default/files/newsevents/conceptnotes/36272-cn-ie24177_e_original-concept_note.pdf.

[47] Statement by Dr. Amani Abou Zeid, AUC Commissioner for Infrastructure and Energy at the Opening Ceremony of the 2019 PIDA Week, 25 November 2019. https://au.int/en/speeches/20191125/statement-dr-amani-abou-zeid-auc-commissioner-infrastructure-and-energy-opening.

[48] The World Trade Organization tries to address these barriers through the Technical Barriers to Trade Agreement (TBT Agreement) and the separate agreement on food safety and animal and plant health standards (the Sanitary and Phytosanitary Measures Agreement).

done by the Stellenbosch based Trade and Law Centre that found that just reducing by 20% the time it takes to move goods across borders would be more economically advantageous for Africa than removing all import tariffs![49]

The 2018 ease of doing business index still has only seven countries from sub-Saharan Africa in the top 100, namely Mauritius, Rwanda, Kenya, Botswana, South Africa, Seychelles and Zambia, although efforts to remove impediments to improved trade are readily identifiable elsewhere. The COMESA-EAC-SADC Tripartite Free Trade Area website lists examples of 25 non-tariff barriers to trade that range from import bans and product classification to corruption. Progress with eliminating these barriers is, however, slow.[50]

In an effort to regularise such standards, the WTO's Agreement on the Application of Sanitary and Phytosanitary Measures came into force in 1995. The agreement provides uniform rules for all laws, regulations and requirements regarding how a product is produced, processed, stored or transported to ensure that its import does not pose a risk to human, animal or plant health. Sanitary measures are aimed at safeguarding human and animal health, while phytosanitary ones are intended to protect plants.

Imported goods should be from disease-free areas, inspected prior to export and should not exceed maximum levels of pesticide or insecticide use. Health risks posed by fresh foods and agricultural goods include salmonella poisoning, foot and mouth disease and sugar plant pests.

The agreement is also meant to prevent countries from using rules and regulations simply to block trade, stating explicitly that the measures cannot be employed in a manner which would constitute a disguised restriction on international trade. But although importing countries are encouraged to use existing international standards, they are nevertheless allowed to adopt stricter regulations if they can scientifically justify their actions.

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[49] Grinsted, J., & Sandrey, R., 2015, *The Continental Free Trade Area—A GTAP Assessment.* [Online] Trade Law Centre, Stellenbosch. Available at: https://www.tralac.org/publications/article/7287-the-continental-free-trade-area-a-gtap-assessment.html.

[50] See COMESA, EAC & SADC, *Non-Tariff Barriers to Trade.* [Online] Available at: https://www.tradebarriers.org/ntb/non_tariff_barriers, p. 98.

Perspectives on the Promise of the African Continental Free Trade Area (AfCFTA)

Against this rather concerning background, much hope has been placed in the African Continental Free Trade Area (AfCFTA) as a vehicle to generally boost trade and assist in the transformation of African economies towards the production of higher value-added goods and decline in commodity dependence. The AfCFTA has the potential to unlock significant value-added trade in goods and services. Medium and high technology manufactures account for 25% of intra-African trade but for only 14% of African countries' exports to developed countries.[51] Typical of the situation in other regions it means that intra-African trade has relatively higher industrial content than African countries' trade with the rest of the world and speaks to the advantage of regional trade over international trade. In other words, African countries first need to trade with one another until their products and services are competitive while steadily expanding their participation in regional and global value chains.

Efforts at trade integration have driven repeated attempts at regional integration to the extent that it is possible to count up to 14 overlapping regional economic communities in Africa, ranging from the 21-member Common Market for Eastern and Southern Africa (COMESA) to the three-member Manu River Union. In fact, Africa has a spaghetti-bowl of regional structures although the African Union only recognises eight. In addition to AfCFTA, the Tripartite Free Trade Area that includes COMESA, the East African Community (EAC) and the Southern African Development Community (SADC) is also making progress in its goal towards greater trade integration. Actually, the proliferation of these communities now presents the continent with something of a challenge given the vested interests and bureaucracy that has accompanied each.

The decision to establish the AfCFTA was taken at a summit meeting of the African Union in January 2012 with the intention to create a single market for goods and services as originally envisioned in the 1991 Abuja Treaty. The original target date of 2017 was missed but after a high-level signing ceremony in Kigali on 21 March 2018, momentum has built up rapidly. Following signature, each country has to follow its national legislative processes and then deposit the instruments of ratification or accession

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[51] African Export-Import Bank. 2018. Africa Trade Report 2018: Boosting Intra-African Trade: Implications of the African Continental Free Trade Area Agreement. Available at https://www.tralac.org/documents/news/2042-african-trade-report-2018-afreximbank/file.html, p. 28.

with the AU Commission.[52] After the treaty crossed the 22 ratification milestone it is scheduled to 'operational' as from 1 July 2020, but exactly what that means is up for debate and has now been delayed due to the impact of COVID-19. The plan is still that by 2034 the full 97% tariff liberalisation will be achieved.[53]

The immediate next step is a conference of state parties, the establishment of an AfCTA secretariat in Accra, Ghana, an African Trade Observatory and the completion of various technicalities. Lots of work still remains, however, since the agreement is essentially a framework, covering trade in goods and services, investment, intellectual property rights and competition policy. Already the establishment of the secretariat has also been delayed due to COVID-19. Once negotiations on trade in goods and trade in services are finalised, rules of origin negotiations have to be concluded as well as negotiations on tariff concessions. Then 'behind the border' trade issues on competition policy, intellectual property rights and investment will follow that will serve to deepen the AfCFTA.[54]

The AfCFTA provides for a single market for goods and services as well as a common market with free movement of capital and business travellers. It does not yet include digital trade and e-commerce. Countries joining AfCFTA must commit to removing tariffs on at least 90% of the products they produce, and can compile a list of sensitive products (amounting to an additional seven percentage points) that are to be temporarily exempted, leaving a three percent exclusion list.[55]

The agreement also provides for a Dispute Settlement Body (DSB) to respond to dumping of foreign products at a lower price than the normal value, allows for Special and Differential Treatment to provide flexibility for states at different levels of economic development and Infant Industry Protection that allows states to impose measures to protect strategic infant industries.[56]

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[52] Accession is the act whereby a state accepts the offer or the opportunity to become a party to an international agreement after the agreement has entered into force. It has the same legal effect as ratification.

[53] 90% of goods will be liberalised over the course of 5–8 years; 7% of goods will be classed as sensitive and liberalised over 10–13 years; and 3% of goods will be exempt from free trade entirely.

[54] ECA, ATPC, AU, UNCTAD & AfDB, 2018. *Concept Note. Assessing Regional Integration in Africa IX Next Steps for the African Continental Free Trade Area.* [Online] Available at: https://www.tralac.org/documents/news/2405-concept-note-assessing-regional-integration-in-africa-ix-report-uneca-2018/file.html.

[55] Ighobor, K., *Africa Set for a Massive Free Trade Area.* [Online] Available at: https://www.un.org/africarenewal/magazine/august-november-2018/africa-set-massive-free-trade-area, p. 3. AU, UNECA & ATPC, 2018. *African Continental Free Trade Area: Questions & Answers.* Addis Ababa.

[56] The dispute resolution mechanism does not, however, provide for private parties.

Trade facilitation will be funded by the AU, member states and external investors, and will address transport infrastructure, customs clearance, technical assistance and capacity building.[57]

Many obstacles remain in moving forward with implementing the AfCFTA. The most obvious is simply the ambition and diversity of its members. The AfCTA includes countries with much bigger levels of income disparity than in blocks such as ASEAN and CARICOM.[58] Agreeing on tariff liberalisation schedules with such large differences is going to require steadfast respect for Special and Differential Treatment by all concerned.

An important feature of the AfCFTA is that it will build on rather than replacing Africa's several existing regional free trade areas. For example in Southern Africa, SACU and SADC free trade areas will continue. The general principle will be that where these regional free trade areas offer better trade terms than the AfCFTA does, the former terms will apply. The same principle will apply to the Tripartite Free Trade Agreement mentioned previously. The result, as with most of these types of arrangements will be complex.

The Potential Impact of AfCFTA?

There have been a number of scenarios on the potential impact of the AfCTA, all very positive. For example, the UN Economic Commission for Africa estimates that it has 'the potential to boost intra-African trade by 52.3% through the elimination of import duties, and by over 100% through the elimination of non-tariff barriers'.[59] Then, in a paper released in February 2018, UNCTAD modelled two scenarios reflecting full and partial elimination of tariffs and concluded that[60]:

> In both long-term scenarios, the largest employment growth rates are found in manufacturing industry followed by some services and agriculture subsectors. All sectors grow, with the exception of a stagnant mining sector. This is in line with the CFTA objective for structural transformation and industrialization.[61]

57 African Union, 2019. *Agreement Establishing the African Continental Free Trade Area,* Addis Ababa, pp. 20, 26 & 52.

58 Akeyewale, R., 2018. *Who Are the Winners and Losers in Africa's Continental Free Trade Area?* [Online] Available at: https://www.weforum.org/agenda/2018/10/africa-continental-free-trade-afcfta-sme-business/.

59 AU, UNECA & ATPC, 2018. *African Continental Free Trade Area: Questions & Answers,* Addis Ababa.

60 Saygili, M., Peters, R., & Knebel, C., 2017. African Continental Free Trade Area: Challenges and Opportunities of Tariff Reductions. *UNCTAD Research Paper No. 15.*

61 Ibid., p. 4.

According to UNCTAD and the UN Department of Economic and Social Affairs (UNDESA) the short-term revenue losses due to tariff reductions will be wiped out over time as trade increases and countries grow more rapidly. UNCTAD concludes that 'with adequate flanking policies and social safety measures, the AfCTA has an immense potential to promote equitable and inclusive growth'.[62] Under a scenario that emulates the full AfCTA implementation where all tariffs are eliminated, UNCTAD estimates that the net welfare gains could be in the region of US$16 billion and almost one percent more rapid GDP growth than would otherwise be the case. Total employment improves by slightly more than one percent, intra-African trade is forecast to grow by one third and Africa's total trade deficit is cut in half.

During the African Economic Conference 2018 in Kigali, the African Development Bank indicated that it expected the AfCTA to boost intra-African trade by up to US$35 billion per year, reflecting a 52% increase in trade by 2022, and a US$10 billion decrease in imports to Africa.[63] The more recent African Economic Outlook 2019 presented a scenario where, if current bilateral tariffs are eliminated Africa would gain US$2.8 billion in real income and intra-African trade would increase by 15%. Additionally, removing non-tariff barriers could increase total real income gains by US$37 billion; and intra-African trade by 107%.

To reach such a deep level of integration, further progress needs to be made on rules of origin, free movement of persons, financial governance frameworks and regional public goods (infrastructure and regional bodies).

Finally, in its estimate of the impact of the AfCFTA the UNDESA finds that

> Growth in Africa is expected to accelerate by 0.3-0.6 percentage points by 2040 (depending on the liberalization approach or scenario adopted), when compared to the baseline scenario. All African countries would experience an increase in their GDP with the AfCFTA reforms, whatever the scenario. … However, these forecasts are likely to substantially underestimate the economic benefits of the AfCFTA, as they do not take into account the impact of liberalization in other areas such as services and investment.[64]

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62 Ibid. United Nations, 2019. World Economic Situation and Prospects 2019. [Online] Available at: https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2019/, p. 124.

63 Tralac, 2018. AEC2018: Africa Must Focus on Its Big Resource—Its Young People, Experts Urge. [Online] Available at: https://www.tralac.org/news/article/13768-aec2018-africa-must-focus-on-its-big-resource-its-young-people-experts.

64 United Nations, 2019. *World Economic Situation and Prospects 2019.* [Online] Available at: https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2019/, p. 124.

Modelling the Impact of Regional Economic Integration: The Africa Free Trade Area Scenario

The IFs forecasting platform used in this book does not currently include a bilateral trading model. Instead it presently relies on a pooled model for trade, meaning that countries each trade with a pool reflecting the rest of the world. For that reason I have to rely on various proxies to emulate the impact of expanding trade in Africa. The first is a ten percent improvement in the quality of government regulations as a proxy for the impact of the harmonisation of rules of trade within Africa.[65] The second is a ten percent increase in roads as a proxy for a reduction in non-tariff barriers.[66] The third is to boost manufacturing, services and ICT exports through export promotion, since the impact of the AfCTA is to accelerate regional trade.[67] Finally, I use an additive factor to multifactor productivity, a powerful driver of economic growth within IFs as a proxy for the general economic benefits generally associated with trade and globalisation.[68] I calibrate the combined impact in accordance with the lower end of the impact of the AfCFTA scenarios done by UNCTAD, the UN Economic Commission for Africa and UNDESA referred to previously. Collectively these four interventions simulate the impact of the full implementation of the AfCFTA, if imperfectly so.

Timewise the AfCFTA scenario assumes that the implementation of the agreement starts in earnest in 2025, hence allowing for the impact of COVID-19 and other factors, and that tariffs are reduced over the subsequent 10-year period in line with current expectations. The interventions within IFs therefore ramp up from 2025 to 2035 and then levels off to 2040. This is, for sure, an exceptionally optimistic forecast for an agreement as complex and politically fraught as the AfCFTA. That said, if leaders do manage to stick to their commitments and take African citizens, business, labour and other stakeholders along with them, the impact will be very large.

By 2040 Africa's economy should be steaming ahead at more than seven percent growth rate in the AfCFTA scenario compared to 5.9% in the Current Path. Across the entire forecast horizon, from 2020 to 2040, the

[65] The intervention improves Africa's average levels of government regulatory quality to slightly above the average for South Asia by 2040, still significantly below the 2040 average for South America.

[66] The intervention marginally reduces the growing gap in roads per capita between Africa and South Asia although Africa continues to trails significantly behind all other regions.

[67] Manufactures imports increase by 1 percentage point of GDP value by 2040. Services exports increase by 0.5 percentage points and ICTechnology exports increase by 0.02 percentage points.

[68] Within IFs the intervention increases the contribution of MFP to GDP growth by 0.24 and 0.82 percentage points above the Current Path in 2030 and 2040 respectively.

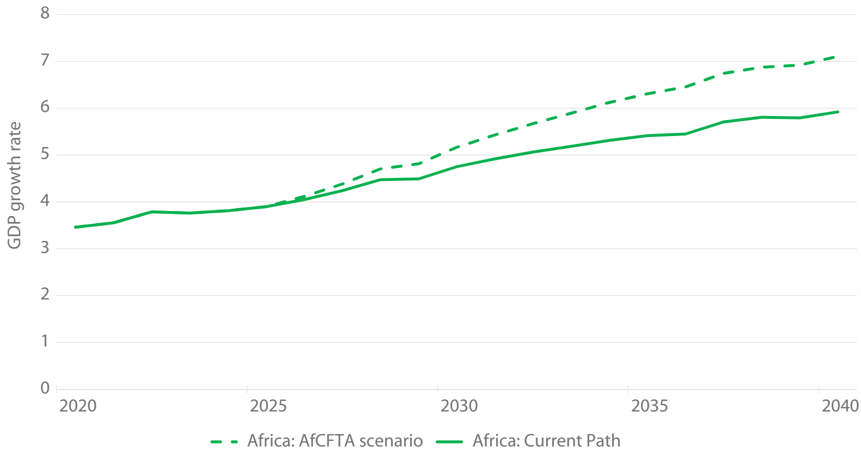

Fig. 11.2 Current Path growth rate vs AfCFTA (*Source* IFs v7.45 initializing from IMF World Economic Outlook)

average economic growth rate for Africa would be 0.5 percentage points above the Current Path.[69] The result is that the African economy is about US$770 billion larger (in market exchange rates) in 2040 than it would be on the Current Path. Even more impressive is that the cumulative increase in the size of the African economy from 2020 to 2040 is a massive US$3.7 trillion. This growth translates into almost 57 million fewer people living in extreme poverty by 2040 (using the US$1.90, US3.20 and US$5.50 extreme poverty lines for low, lower-middle and upper-middle-income countries explained in Chapter 7) or 45 million fewer persons living in extreme poverty using the US$1.90 income level for all 55 African countries. By 2040, GDP per capita in Africa is US$470 on average more for each of Africa's 2.081 billion people (Fig. 11.2).

Since more intra-African trade benefits Africa's manufacturing sector, the services and manufacturing sectors could, on average, be 0.7 and 0.4 percentage points larger in 2040 than in the Current Path scenario. The contribution of the agriculture and energy sectors marginally decline as a portion of the total African economy, but not in absolute values since by 2040 the African economy is significantly larger than it would otherwise be. These sectoral shifts follow the natural and expected evolution of an economy that becomes more productive over time.

[69] From 2020 to 2040, the African economy would grow at 5.2 instead of an average of 4.7% per annum.

By 2040 the value of Africa's exports have increased by US$148 billion and imports would have declined by US$124 billion with the greater part of the increase in exports benefitting Africa's 21 lower-middle-income countries.

South Africa, an upper-middle-income country with the continent's most diversified economy gains more than double (US$27 billion) the amount from additional exports in 2040 compared to the next country, Egypt (US$14 billion in 2040). Other countries that gain more than US$5 billion from additional trade in 2040 are Nigeria, Angola, Morocco, Ghana, Algeria and Tanzania. In general the current account improves, government debt reduces (by about 1.5 percentage points) and household saving rates improve.

Conclusion: Advancing Africa's Trade

This chapter has set out the reasons why African countries need to deepen trade agreements with other countries in the region to grow trade, develop and diversify their economies, particularly to facilitate progress up the value-add ladder. Most African economies are simply too small and Africa currently too fragmented to build competitive productive capacity at scale, or indeed to offer sufficiently large markets to attract substantive foreign investment without such agreements.[70]

Since trade potential in goods inevitably diminishes with distance, African countries are best served by first trading with other African countries, although the natural trading relationship for North Africa is with Europe and the Middle East rather than sub-Saharan Africa given the intervening reality of the Sahara desert. In similar vein one could also speculate as to the future orientation of the Horn of Africa as likely more closely linked to the Arabian peninsula and with emerging India rather than with much of the rest of Africa given the facilitation provided through ocean-based transport and the limited rail and road infrastructure in the Horn, although that is changing.

That said, the extent to which Africa will be able to leapfrog to higher-end value in trade will depend on the investments made in selected, well-targeted infrastructure able to support competitive industries and sectors in industrial parks and export-processing zones linked to regional and global markets, invest in appropriate technology and education. But more is required. For

[70] Only five African countries have a GDP of more than US$100 billion (Nigeria, South Africa, Egypt, Algeria, Morocco).

example in a recent study on the future of Ethiopia,[71] globally one of the fastest growing economies in the last decade, we found that the average of 2.7 years of education in the adult population over the age of 15 is still one of the lowest in the world. Along with low levels of overall attainment and poor quality outcomes, there is also a very pronounced gender gap in Ethiopia's education system, with males receiving more than twice as much schooling as their female counterparts. Structurally Ethiopia needs to unlock this constraint, the first and most severe blockage in its education pipeline, if it wants to improve its human capital endowment and hence the value of exports.

Digital technologies can help overcome Africa's large infrastructure deficit but will likely dampen trade in goods while further fuelling the growth in trade in services.

Trade integration can help African countries to prioritise investment in sectors where they have a comparative advantage. It could foster the establishment or promotion of industries in which African businesses have the potential to trade regionally and eventually globally. Additionally, regional integration would improve the diversification of goods and the technology content of Africa's exports.[72]

In other words, trade liberalisation works only to the benefit of countries when they actively manage levels of openness to trade.[73] For this reason the policies and support of a national governance that invests in the quality of institutions, and provides policy certainty is important.[74] China is the poster child when it comes to how it has successfully managed access to its large domestic market, protected and nurtured its infant industry and demanded technology transfer from foreign companies. Today it is the world's factory.

Going up the product and services complexity curve requires that national and regional value chains are established where cities, regions and national economies can collaborate on a cost-competitive basis in bringing diverse skills together to produce ever more valuable products and services.

Initiatives like the AfCFTA are therefore crucial for growth and prosperity in Africa. It has the potential to trigger a virtuous cycle of expanded trade

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71 Donnnenfeld, Z., Cilliers, J., Kwasi, S., & Welborn, L., 2020, Emerging Giant: Potential Pathways for Ethiopia to 2040, ISS 17 January 2020. Available at: https://issafrica.org/research/east-africa-report/emerging-giant-potential-pathways-for-ethiopia-to-2040, p. 8.

72 Somé, J., 2018. *African Economic Conference 2018: Industrial Policy, Institutions and Performance of the Manufacturing Sector in Africa.* Kigali: UNDP, ECA & AfDB, p. 5.

73 Zahonogo, P., 2016. Trade and Economic Growth in Developing Countries: Evidence from sub-Saharan Africa. *Journal of African Trade,* 3(1–2), pp. 41–56.

74 Somé, J., 2018. *African Economic Conference 2018: Industrial Policy, Institutions and Performance of Manufacturing Sector in Africa.* Kigali: UNDP, ECA & AfDB, p. 5.

on the continent that will, in turn, drive the structural transformation of economies. Detail negotiations are, however, likely to take a long time and a number of uncertainties, for instance about tariff schedules, remain.[75] For this reason the EAC, SADC, ECOWAS and the Tripartite Free Trade Area need to simultaneously press on and pursue trade facilitation reforms and trade integration.

When all is said and done the major obstacles to regional trade in Africa are often political and are shaped by the short-term pain (loss of tariff income) that is required before the long-term gains (higher growth) offsets these losses. Regional integration will eventually grow tax revenues as more rapid growth translates into more government revenues, but in the shorter term governments will have to work hard to get domestic buy-in once the pain from loss in tariff income becomes evident.[76]

Given the political will to overcome the initial tariff losses, structurally the biggest challenge for African integration will be how extremely unequal partners such as South Africa and Botswana, both upper-middle-income countries, can be integrated with surrounding low-income countries like Mozambique, Swaziland and Lesotho.

Expanding trade in Africa requires peace and stability, the topic of the next chapter.

Further Reading

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75 Currently there are 'no tariff schedules, no Annex on rules of origin, nor rules for specific services sectors to regulate such trade. … These are sensitive and technically complicated matters; especially when 55 countries at very different levels of economic development are involved.'; Erasmus, G., 2019. *Where Does the AfCFTA Process Stand and What Happens Next?* [Online] Available at: https://www.tralac.org/blog/article/13855-where-does-the-afcfta-process-stand-and-what-happens-next.html?utm_source=tralac+Newsletter&utm_campaign=6e06277124-Daily_News_23012019&utm_medium=email&utm_term=0_a95cb1d7ad-6e06277124-311097085.

76 Ogunniyi, A., Mavrotas, G., Olagunju, K., Adedoyin, R., Adewale, A., & Ayodeji, O., 2018. *African Economic Conference 2018: Regional Economic Integration, Governance Quality and Tax Revenue in Sub-Saharan African Countries: Linkages and Pathways,* Kigali: UNDP, ECA & AfDB, p. 12.

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